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HOMEOWNERSHIP OPPORTUNITY PROGRAM (HOP)

MASSACHUSETTS HOUSING PARTNERSHIP
EXECUTIVE OFFICE OF COMMUNITIES AND DEVELOPMENT
MASSACHUSETTS HOUSING FINANCE AGENCY



HOMEOWNERSHIP OPPORTUNITY PROGRAM (HOP)

HOMEOWNERSHIP OPPORTUNITY PROGRAM

. . . providing affordable homes to first-time homebuyers

The average price of a single-family home in Massachusetts has more than doubled since 1983. And the number of families who want to purchase their first home far exceeds the supply of homes they can afford to buy.

In response to this problem, in January 1986, Governor Michael Dukakis announced the Homeownership Opportunity Program (HOP). The program's goal – to give thousands of lower- and- moderate-income households a chance to buy and own their first home.

The HOP program is based upon a partnership that uses state, local and private sector resources to provide “affordable” homes and low-cost mortgages to income-eligible, first-time buyers. In any HOP development, at least 30 percent of the units must fall within this “affordable” category. To ensure the affordability of these units is maintained, there also are some restrictions on their resale.

Under HOP, communities and developers are encouraged to work together to design developments that will be successful in particular housing markets. Thus, depending on the location, developments may consist of conventional wood-frame or modular designs; single family homes or townhouses; or low-rise or mid-rise buildings.

The HOP program is jointly administered by the Massachusetts Housing Partnership (MHP), through the Executive Office of Communities and Development (EOCD), and the Massachusetts Housing Finance Agency (MHFA).

**HOP
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HOW HOP WORKS

HOP developments include homes which are available at a mix of prices to families earning a wide range of incomes. Most of the homes built through the HOP program will fall into one of three categories: (1) HOP-assisted; (2) MHFA-assisted; or (3) Market-rate. The following chart provides an overview of the benefits and requirements associated with each of these three categories.

*Codman Commons
Boston*



*Back of the Hill
Boston*

BUYERS	BENEFITS	REQUIREMENTS
HOP-Assisted Buyers¹ (30% of the homes in a development)	<ul style="list-style-type: none"> • Substantially reduced home prices (in the \$75,000 to \$95,000 range) • Low interest mortgage (through use of MHFA tax-exempt financing and MHP subsidy loan provides mortgage up to 5% below conventional bank rate for first years and generally 2% below conventional bank rate for full term of loan) • 5% downpayment • More flexible credit ratios • Where needed, closing cost assistance 	<ul style="list-style-type: none"> • First-time homebuyer • Maximum income, for a one-four person family of \$32,400 in Boston area and \$30,160 elsewhere in the state • Creditworthy • Must agree to some restrictions to maintain affordability of homes for future buyers and to repay a portion of the subsidies that were used to reduce the mortgage loan interest rate
MHFA-Assisted Buyers² (0%-20% of the homes in a development)	<ul style="list-style-type: none"> • Reduced home prices (ranging from \$110,000 to \$130,000 depending on location) • Low interest mortgage (through MHFA tax-exempt financing provides mortgage at approximately 2% below conventional bank rates for full term of loan) • 5% downpayment • More flexible credit ratios 	<ul style="list-style-type: none"> • First-time homebuyer • Maximum income, for a two-four person family of between \$39,600 and \$43,700, depending upon area (Limits slightly lower for one-person households) • Creditworthy
Market Buyers (50%-70% of the homes in a development)	<ul style="list-style-type: none"> • Newly constructed homes at market prices 	<ul style="list-style-type: none"> • Creditworthy

¹Generally 5-10% of the HOP-assisted units are reserved for rental to lower-income (public housing eligible) households.

²Most developments will not include this middle tier of MHFA-assisted units.

The low mortgage interest rate for HOP-assisted borrowers is achieved by combining MHFA mortgage financing with a subsidy loan from the MHP.



*Abbotts Pond
North Andover*

*Lincoln Perkins
Somerville*

HOP-ASSISTED

A minimum of 30 percent of the homes in all HOP developments must be reserved for occupancy by lower-income families. Usually, 20 to 25 percent of the total homes are available for purchase by income eligible first-time homebuyers, with the remaining five to ten percent being purchased by local housing authorities for rental to lower-income families.

Benefits

Reduced home purchase prices – Prices for HOP-assisted units will vary

from development to development, but generally, they

will be 15% to 50% below prices for comparable market-rate units in the area. The maximum *average* price for two-bedroom condominiums is \$75,000 and for three-bedroom condominiums is \$85,000. \$10,000 can be added to these limits for detached single-family homes, where there is no condominium fee.



Low-interest rate mortgages – The low mortgage interest rate for HOP-assisted borrowers is achieved by combining MHFA mortgage financing with a subsidy loan from the

MHP. MHFA mortgages, funded through the sale of tax-exempt bonds, generally are available at rates two percent below conventional interest rates. MHP subsidy loans are then used

to reduce the MHFA interest rate even further, usually by another three percentage points. If, for example, the conventional bank rate for a fixed-rate loan is 10.5 percent, the MHFA rate will be approximately 8.5 percent. The subsidy loan provided by MHP will "buy down" the MHFA rate even further, to 5.5 percent for the initial years of the mortgage (usually the time when homebuyers need the most assistance).

The subsidy for the buydown is in the form of an interest free loan to the borrower, secured by a second mortgage. The subsidy is provided for a total of ten years, but decreases over that period of time, until the interest rate to the borrower reaches the MHFA interest rate.

For example:

Year of Mortgage	MHFA Interest Rate (%)	Rate Actually Paid by Borrower (%)
1	8.5	5.5
2	8.5	5.5
3	8.5	5.5
4	8.5	5.5
5	8.5	5.5
6	8.5	6.5
7	8.5	6.5
8	8.5	7.5
9	8.5	7.5
10-30	8.5	8.5

Downpayments of only five percent are required of HOP-assisted homebuyers.



No payment on the subsidy loan is required until the unit is resold or refinanced, at which point a portion of the total subsidy must be repaid (see *requirements section for more information*).

These mortgages will be processed in cooperation with a private mortgage lender which has been pre-selected for this purpose.

Five percent downpayment – Downpayments of only five percent are required of HOP-assisted homebuyers. Gift letters, from family members, can be used towards the downpayment as long as the borrower puts in at least half of the downpayment using their own cash (2½% borrower cash requirement on downpayment of 5%).

Credit ratios – Recognizing that households today are having to pay more of their income toward both housing and installment debt, slightly more liberal underwriting standards are being used in conjunction with the HOP program.

Housing expense to income ratio

A homebuyer's monthly housing expense (mortgage principal and interest, hazard insurance, real estate taxes, primary mortgage insurance and monthly homeowner's association fee, where applicable) should not exceed 30 percent of his/her stable gross monthly income.

To calculate the gross housing expense to income ratio, divide the total monthly housing expenses by the household's total gross monthly income. Use the following chart.

A Borrower Assistance Program (BAP) has been created to help HOP-assisted borrowers pay the closing costs associated with getting a mortgage.

Use the following chart.

HOUSING EXPENSE TO INCOME RATIO	
Monthly Stable Income (A)	Monthly Housing Expense (B)
Stable gross monthly income _____	Mortgage payments (including principal and interest) _____
Stable monthly overtime/bonuses _____	Monthly fire and hazard insurance _____
Stable secondary monthly income _____	Monthly real estate taxes _____
Stable monthly dividend income _____	Monthly primary mortgage insurance _____
	Monthly homeowner's association fee (portion of condominium fee applicable to common areas) _____
Total (A) _____	Total (B) _____
$B \div A =$ _____ Housing Expense to Income Ratio	

Housing expense (Total B) divided by monthly income (Total A) equals your housing expense to income ratio. This ratio should not exceed 30 percent.

Payment to income ratio

Monthly housing expense plus payments on all other installment debts having a life of more than 12 months should not exceed 36 percent of the borrower's stable gross monthly income.

To calculate the *payment to income* ratio, add the total monthly housing expense (from total B above) to the other monthly debt payments (including charge accounts, auto loans and educational loans) which have remaining terms of more than 12 payments and then divide that number by the borrower's stable monthly income (Total A from above). Use the chart below.

Total monthly payments (Total C) divided by stable monthly income (Total A) equals the payment to income ratio. This ratio should not exceed 36 percent.

PAYMENT TO INCOME RATIO	
Total (B) _____	Credit card payments _____
Car loan _____	_____
Car loan _____	_____
Education loan _____	Other loan(s) _____
Education loan _____	_____

	Total (C) _____
$C \div A =$ _____ Payment to Income Ratio	

Closing cost assistance – A Borrower Assistance Program (BAP) has been created to help HOP-assisted borrowers pay the closing costs associated with getting a mortgage. This assistance is available only to families who have insufficient funds to pay closing costs.

Under this program, HOP buyers can borrow the lesser of \$5,000 or five percent of the purchase price of the home. These funds carry a simple interest rate of three percent and are repaid by the borrower at the time of resale, refinancing or transfer of the property.

Closing costs can total between four and five percent of the

mortgage amount. These costs are for items such as mortgage application and attorney fees, title insurance, filing and recording fees, standard bank settlement costs, and a bank origination fee. Also, if the downpayment is less than 25 percent of the cost of the home, the loan must be insured by a primary mortgage insurer. Generally, a lender will submit a borrower's application to an insurer for approval. This insurance usually involves an initial charge at the time of closing and subsequent annual renewal fees.

A first-time buyer is defined as someone who has never owned a home, or who has not owned a home within the last three years.



Two options for private mortgage insurance have been structured for HOP and MHFA-assisted borrowers. These options result in a savings to the borrower on his/her initial mortgage insurance premium and do not require the borrower to have two months worth of payments for principal, interest, taxes and insurance in escrow. On an \$83,000 mortgage, for example, these options mean approximately \$2,000 less will be needed by a borrower at closing.

Requirements

To be eligible for HOP-assisted units buyers must:

Be first-time homebuyers – A first-time buyer is defined as someone who has never owned a home, or who has not owned a home within the last three years.

Meet income guidelines – Income guidelines will vary from development to development, but generally, for HOP-assisted units, will not exceed 80% of the area median income. For a family of four in the Boston area this is \$32,400, elsewhere in the state it is \$30,160. Income is defined as the gross annual income of the homebuyer and/or any other individuals intending to occupy the house being purchased.

Be creditworthy – As part of the mortgage application review process, lenders will conduct a credit check on potential homebuyers and prepare a credit report. The report details a person's present financial condition and his/her history of meeting monthly bill payments. Persons interested in getting a copy of their credit report can contact the Consumer Credit Counselling Service at (617) 426-6644 for information.



*Clarendon Square
Boston*



*The Pines
Pittsfield*



*Winslow Court
Boston*

Homebuyers also must meet the underwriting guidelines described in the "Credit Ratios" section on pages five and six of this brochure.

Restrictions – HOP-assisted units are sold to eligible homebuyers at prices that generally are 15 to 50 percent less than their appraised values.

To ensure the long-term affordability of these homes through comparable discounts to future buyers, the resale price of HOP units is restricted through several legal mechanisms.

- (1) Deed restrictions. Any HOP-assisted unit initially selling for 85% or less of its appraised value will have its subsequent re-sale price limited by the same percentage of cost-to-value.

Example: If a unit appraised for \$100,000 initially sells through HOP for \$75,000, it has sold for 75% of its appraised value. If the appraised value of the unit at the time of re-sale has increased to \$150,000, the unit must be sold to an eligible homebuyer for \$112,500 – or 75% of \$150,000. If no eligible homebuyer can be found within a set period of time, the unit may be sold to



**Emerson School
Concord**



**Webster School
Boston**



**Misty Meadows
Amherst**

any buyer at any price, with any profit beyond the cost-to-value figure being returned to MHP.

This requirement does not usually affect HOP units selling at 86% to 100% of their appraised value, unless the zoning for the development was secured through the comprehensive permit process. In those developments, all units selling for below market value will have deed restrictions.

(2) Right of first refusal. Buyers of deed-restricted units must agree to notify the MHP and the community where the housing is located when they intend to sell their units. The community and/or MHP then will be allowed a set period of time to find a qualified purchaser for the unit at the allowable sales price.

(3) Repayment of MHP subsidy. A second mortgage loan is used to secure the MHP subsidy which reduces the interest rate on all HOP-assisted units. No interest on this loan is charged to the borrower, and no payments are required on the loan until the time of re-sale. Upon re-sale, refinancing or transfer of the property, the *lesser* of the actual subsidy used or 20% of the allowed appreciation must be repaid to MHP.

**Buyers of
MHFA-assisted
homes will
receive mortgages
at an interest rate
approximately
two percent
below
conventional
mortgage
interest rates.**

MHFA-ASSISTED

In some HOP developments, a percentage of the units will be available at somewhat higher purchase prices to people with slightly higher incomes.

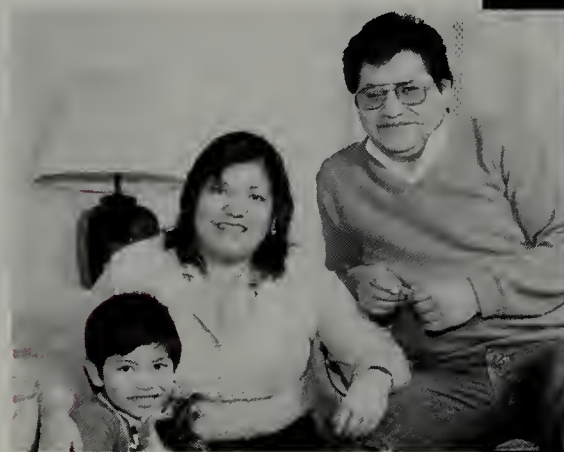
Benefits

These homebuyers benefit from:

Reduced home purchase prices – prices for MHFA-assisted homes will not be as low as those for HOP-assisted units but generally they will be lower than area market rates. These prices will vary from development to development, but generally will range from \$110,000 to \$130,000, depending on the location.

Low-interest mortgage loans – buyers of MHFA-assisted homes will receive mortgages at an interest rate approximately two percent below conventional mortgage interest rates. This low rate will remain in effect for the term of the loan which is usually between 26 and 30 years. These loans will be processed in cooperation with a private mortgage lender who has been preselected for this purpose.

5% downpayment – 5% downpayments will be accepted from MHFA borrowers as long as their income can support a 95% mortgage.



*Suffolk Heard Street
Chelsea*



Credit ratios – The underwriting requirements for MHFA-assisted borrowers are identical to those discussed on page five of this brochure for HOP-

assisted borrowers. To qualify, a borrower's monthly housing expense should not exceed 30 percent of his/her stable gross monthly income. His/her monthly housing expense plus payments on all other installment debts having a life of more than 12 months should not exceed 36 percent of the household's stable gross monthly income.

Requirements

To be eligible for MHFA-assisted units buyers must:

Be first-time homebuyers – A first-time buyer is defined as someone who has never owned a home or who has not owned a home within the last three years.



Bradford Estates
Boston

Income guidelines for MHFA-assisted buyers are established by federal law and vary depending upon where the home being purchased is located.

Meet income guidelines – Income guidelines for MHFA-assisted buyers are established by federal law and vary depending upon where the home being purchased is located. For a household of two or more these limits are as follows:

AREA	INCOME
Boston	\$43,000
Lawrence-Haverhill	40,200
Lowell	42,400
Salem-Gloucester	43,700
Massachusetts portion of Pawtucket-Woonsocket- Attleboro	39,600
Balance of State	39,600

Be creditworthy – Lenders will conduct a credit check of MHFA-assisted borrowers which is comparable to that discussed on page seven of this brochure.

MARKET PRICED HOMES

Generally, no reductions in home prices or mortgage interest rates are available to market-rate homebuyers. These buyers purchase their homes with mortgages obtained from private lenders at whatever mortgage interest rates are available at the time of purchase.



**Under HOP,
communities
and developers
are encouraged
to work together
to design
developments
that will
be successful
in particular
housing
markets.**

APPLYING FOR HOP ASSISTANCE

A list of HOP developments for which applications are now being or will be accepted is included as an insert to this brochure. Complete details on these developments can be obtained by contacting the sales agent whose name and phone number is listed next to the development name.

HOP developers are required to submit an affirmative marketing plan to the MHFA, including goals for minority occupancy, and to aggressively carry out this plan. In developments supported by a community, a percentage of the units also may be reserved with preference for local residents. In most of these developments, demand for HOP assistance exceeds the supply of available units. As a result, applicants for the HOP-assisted, and if applicable, the MHFA units, are generally selected through lotteries.

The private sales agents should be able to provide complete details relative to the cost of units, income eligibility, time-frame for lotteries, etc. Additionally, the MHP has regional offices in the following communities. If you are unable to reach the private sales agent for a given development you should try to contact the nearest MHP office.

Boston (Main Office)	(617) 727-7824
Amherst	(413) 253-7379
Burlington	(617) 229-6338
Worcester	(508) 755-7737
Bourne	(508) 759-4991

Potential homebuyers should be aware that this brochure is intended to give a broad overview of the benefits and requirements associated with the HOP program. Eligibility requirements may change from time to time and always should be verified with the local sales agent.



The background is a dark red, textured surface. Overlaid on this are several thick, white, geometric lines. These lines form a series of parallel diagonal paths that intersect with a vertical line and a horizontal line, creating a grid-like structure. The lines are of varying lengths and angles, creating a dynamic, architectural feel.

**MASSACHUSETTS HOUSING PARTNERSHIP
EXECUTIVE OFFICE OF COMMUNITIES AND DEVELOPMENT**

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